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DATE: March 18, 2002

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
FISCAL POLICY AND RESOURCES
ANALYSIS**

BILL #: HB 2027 (PCB FPR 02-09)

RELATING TO: Sales Tax Exemption Review Commission

SPONSOR(S): Committee on Fiscal Policy and Resources and Representative Wallace

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

- (1) FISCAL POLICY AND RESOURCES YEAS 9 NAYS 3
 - (2)
 - (3)
 - (4)
 - (5)
-

I. SUMMARY:

This bill creates the Sales Tax Exemption Review Commission. The membership of the commission is nine members of the Senate appointed by the President of the Senate and nine members of the House appointed by the Speaker of the House. The commission is instructed to examine all exemptions from the sales and use tax contained in Chapter 212, Florida Statutes and make recommendations to the Legislature on whether these exemptions should be retained, modified, or repealed. A recommendation to repeal an exemption must be made by the vote of two-thirds of the membership of the commission; otherwise, the commission must recommend that the exemption be retained or modified

The commission may use its discretion in determining the order in which it reviews the exemptions; however, the commission should review approximately one-third of the exemptions each year. By February 1, 2003, the commission shall submit its first report, by February 1, 2004, the commission shall submit its second report, and, by February 1, 2005, shall submit its final report to President of the Senate and the Speaker of the House of Representatives. The commission shall hold its first meeting before August 1, 2002, and shall dissolve on June 30, 2005.

This bill has no fiscal impact.

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II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|------------------------------|-----------------------------|-----------------------------------------|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Chapter 212, Florida Statutes, provides for a tax on sales, use, and other transactions. The chapter also provides for numerous exemptions from this tax.

Chapter 2000-222, Laws of Florida, created the State Tax Reform Task Force. The task force held its initial meeting on August 16, 2000 and issued its final report on January 28, 2002. The task force was directed to examine the state's tax structure and make recommendations to the Governor and Legislature on how the state's tax structure can be improved to ensure a stable revenue base that is adequate to fund the needs of the state. The task force created a set of six Principles of Taxation to be utilized in evaluating Florida's tax system. These Principles of Taxation are:

- a. Equity – The Florida tax system should treat individuals equitably. It should impose similar tax burdens on people in similar circumstances and should minimize regressivity.
- b. Compliance – The Florida tax system should facilitate taxpayer compliance. It should be simple and easy to understand so as to minimize compliance costs and increase the visibility and awareness of the taxes being paid. Enforcement and collection of tax revenues should be done in a fair, consistent, professional, predictable and cost-effective manner.
- c. Pro-Competitiveness – The Florida tax system should be responsive to interstate and international competition in order to encourage savings and investment in plant, equipment, people, and technology in Florida.
- d. Neutrality – The Florida tax system should affect competitors uniformly and not become a tool for "social engineering". It should minimize government involvement in investment decisions, making any such involvement explicit, and should minimize pyramiding.
- e. Stability – The Florida tax system should produce revenues in a stable and reliable manner that is sufficient to fund appropriate governmental functions and expenditures.
- f. Integration – The Florida tax system should balance the need for integration of federal, state and local taxation.

C. EFFECT OF PROPOSED CHANGES:

This bill creates the Sales Tax Exemption Review Commission. The Commission would consist of nine members of the Senate appointed by the President of the Senate and nine members of the House of Representatives appointed by the Speaker of the House. The commission is instructed to hold its organizational meeting by August 1, 2002 and would be dissolved on June 30, 2005.

Each appointed member of the commission shall serve at the pleasure of the appointing official. A vacancy on the commission shall be filled in the same manner as the original appointment. The chair shall be appointed by the President of the Senate and the vice chair shall be appointed by the Speaker of the House. The chair and vice chair shall serve from his or her appointment until December 31, 2003. On January 1, 2004, the former vice chair will become the chair and the former chair will become the vice chair and serve until June 30, 2005. The Senate Finance and Taxation Committee and the House Fiscal Policy and Resources Committee shall provide administrative staff for the commission

The commission is instructed examine all of the exemptions to the sales and use tax contained in Chapter 212. For each exemption, the commission shall make a recommendation whether the exemption should be retained, modified, or repealed. A recommendation to repeal an exemption must be made by the vote of two-thirds of the membership of the commission; otherwise, the commission must recommend that the exemption be retained or modified.

The bill instructs the commission to consider the principles of Equity, Compliance, Pro-Competitiveness, Neutrality, Stability, and Integration in evaluating these exemptions. The commission must also consider Public Purpose¹ in evaluating exemptions. The bill states that the commission may determine the order in which it reviews the exemptions, but states that the commission should review approximately one-third of the exemptions each year.

Finally, the bill provides for three reports to be made by the commission to the President of the Senate and the Speaker of the House. By February 1, 2003, the commission shall submit its first report, by February 1, 2004, the commission shall submit its second report, and, by February 1, 2005, shall submit its final report.

D. SECTION-BY-SECTION ANALYSIS:

See Effect of Proposed Changes.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

¹ "Public Purpose" was not among the principles of taxation developed by the State Tax Reform Tax Force.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds of to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON FISCAL POLICY AND RESOURCES:

Prepared by:

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